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TAGS: ENRG EPET TU XG  
SUBJECT: EU COMMISSIONER PIEBALGS TO GET TURKEY TO DROP  
CONTROVERSIAL GAS TRANSIT FORMULA?

REF: A. ANKARA 1172  
1B. ANKARA 1818

Classified By: Economic Counselor Dale Eppler for reasons 1.4 (B) and (D)

11. (C) Summary. On October 22, an EU Commission delegation led by Heinz Hilbrecht, Director for Conventional Energy Sources, Directorate General for Transportation and Energy met with Ministry of Energy Undersecretary Selahattin Cimen, MFA Deputy Undersecretary Selim Kuneralp and other GOT officials to discuss the Nabucco pipeline project. Hilbrecht's visit set the stage for a visit by EU Commissioner Andris Piebalgs to Ankara on November 6. Ankara EU Commission Economic Counselor Ulrike Hauer told us Piebalgs, goal is to get high-level political confirmation of the conclusions of the technical team's visit, namely: (1) the GOT is ready to move ahead with the Caspian Development Company (CDC) concept as a way to address Turkey and Europe's gas supply needs and (2) the GOT will drop its controversial provision to keep 15% of all gas transiting Turkey, clearing the way for a near-term signing of an intergovernmental agreement on Nabucco. End summary.

12. (C) According to Hauer, EU Commissioner Piebalgs has been directed by the Commission to get more involved in developing relations with Central Asia. Piebalgs will fly to Ankara, Baku, Tbilisi and perhaps Ashgabat. Piebalgs will be in Ankara for less than 24 hours flying in the evening of November 5 and departing the afternoon of November 6. He has requested meetings with the PM, Foreign Minister, Treasury Minister and Energy Minister, no meetings are confirmed yet.

13. (C) On October 22, EU Commission Cabinet Member for Piebalgs Roland Kobia gave us a readout of the Commission's discussions with the GOT on Nabucco. Kobia said the talks were positive and centered on two issues. First, the Commission obtained Turkey's support for the Caspian Development Company (CDC), the idea to create a consortium of private companies (perhaps EU, US, others), to negotiate a gas supply deal with Turkmenistan (ref a). Kobia said the CDC is a way to aggregate demand volumes in Europe to show Turkmenistan that Europe could be an important gas customer. CDC is will also seek access to Turkmenistan's upstream development. Kobia said the CDC concept needed to be developed more fully but thus far does not violate the EU's competition rules. Turkey will ask the World Bank to do a feasibility study on the CDC concept and the Commission will

provide the terms of reference and funding.

¶4. (C) The second issue is the one that soured the Commission's July talks in Ankara, the GOT's ongoing demand to keep 15% of gas transiting Turkey for Turkey's domestic market. According to Kobia, there was a breakthrough on this issue. Kobia told the GOT that Turkey's domestic gas needs were a commercial matter and that Turkey should negotiate directly with Nabucco partners and Azerbaijan for a gas sales and purchase agreement, rather than expect the EU to solve the problem. According to Kobia, Cimen responded he would be willing to take the 15% provision off the table (ref b).

¶5. (C) Comment: It is difficult to believe that the GOT has agreed to take the controversial 15% transit gas formula off the table without a quid pro quo that increases Turkey's gas supply. We, the Europeans, and the commercial partners for Nabucco have been pleading with the GOT to get rid of this formula for months. The GOT has always maintained a substitute formula must be offered to guarantee Turkey's future gas needs are met before they drop the provision. In an October 30 meeting, the PM and Energy Minister were upbeat about Turkmen gas and perhaps, in that context, the CDC concept is a replacement. Alternatively, Piebalgs may be in for a surprise on November 6 and the 15% provision may find a second wind.

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